CRUM : COMPARTMENTALISED REAL ESTATE UNITS MARKET

The liquidity of real estate markets have always been an issue with the increase in market evaluated value of the added components and innate inelasticity of demand e.g. an apartment is valued not only because of the capital invested into its building but also due to the amenities facilitated by the community produced, as well as the overall lifestyle opportunities in the radius. This asset class is heavily prominent in the developed states like the US and UK where the former's banking and economy sector was founded upon the concept of housing mortgage and easy lending ; the magnitude of the asset's intertwining can be estimated from the fact that it is not only physically purchased but also churned with the help of mutual funds and hedge funds (not only via credit swaps/ bonds but also physical units that are pooled in the form of units). Roughly 15% of US GDP is linked to this sector making real-estate broking and co-related professions one of the highest paying and stable of

all. This sector itself is very diversified because of the tiers and priority; residential, commercial, industrial, raw land, and special use. The properties are further partitioned and then monetised over a contractual renting or leasing to multiple entities.

Thus, even if there is a recession and the number of default rates increase , the insurance companies will still help the risk to be dissipated as these are further re-insured and the credit lending will always be moreover constant as the commercial side(CapEx) will still uphold the recession-proof tag. The mortgage debt is about 44% of the private debt in the US.

This is the likely scenario of the developed nations which work as a standard/bar for the developing nations to meet, as real estate is not only an asset but also a representative of an economy's socio-economic stature.

As per Keynesian Psychology, velocity of an instrument is the key to improvise the market

outcomes. The 3 I’s that bar the aforesaid in terms of real estate are illiquidity, inflation and inelasticity. On the other hand , it has been one of the most preferred and conservative approaches taken by lineages to wealth diversification apart from Gold. To reduce the inconvenience of storing physical gold or avoid making charges , the asset has been dematerialised into digital gold with the help of respective depositories, custodians and treasurers. It also has been included in the form of gold bonds in the fixed income market.

However, in India, this market is devoid of any alternative form of speculation, given the fact that the total market cap is just $ 7.8 billion for a 1.38 billion population with an area 3.28 million sqft. On the other hand, US with almost a billion less population than India for 3x land area has a $ 222.3 billion market cap. This mammoth difference of 2675% is possible even after such an inadequate population density is only because of the CapEx and financially powerlifted commons; plus the huge girth credit injection further works as a steroid for

the natural velocity of cash flow and enables such developments in the industry.

India being a victim of jet lag due to the colonial trauma, emergencies, political mismanagement, offsetting import-export ratio, pure foreign inflows and fiscal deficits have majorly infused unhealthy macro sentiments in the hearts of all for a long time; even if the liberalisation pushed the boundaries, the world average seemed to be miles away until a decade ago when things changed drastically with more government protocol standardisations as well as technological and infrastructure developments. Currently we are scoring amongst the top 3 in terms of incubations and startups with a paradigm jump in fresh unicorns even if the fallacy is that this was long due as we have been an eternal source of third party human resources and massive brain drain which caused us to be a laggard in terms of CapEx. But now the foreign investments have also exponentially grown and more employment is generated.

It was important to put light on the macro credentials of an economy to get an estimate of the consumer behaviour . The capacity to spare for luxuries and investments (savings providing returns) instead of just consumption of necessities, has been increased for a larger section of the population. It is evident from the growing demat accounts and inflow from retail investors into the financial markets.

Thereby, I propose a new form of regulated market as well as some ancillary/derivatives market instruments in the following pages of this concept paper. The CRUM market will initially have listings from the metropolitan cities until more market makers/institutional entities come in and increase interoperability and arbitrage by bringing in more liquidity for the retail investors. Slowly, more geographical regions will be included and contractual obligations will be broadened over the time . Every state should have a separate exchange for the inter-state transactions and autonomous clearing corporations will be set up. Even if real

estate is an immovable property and requires no depository, the promoter of the scrip is supposed to be equivalent to the treasurer who has to keep the property intact till the maturity of the contract and also seek special insurance agreements. Latter will be an additional attribute to the brand value of the instrument. Every Contract will be a block in the blockchain network as the immutability of the digital ledger will smoothen audits and promote transparency.

Now the instrument's functioning is being explained with the help of a villa in Mumbai (say worth 5 crores) whose promoter is (say X Group).
Latter lists the scrip with 10 units for 50 lakhs each which becomes more liquidable then a single ticket price worth 5 crores. The promoter gets faster return on investment in the former case. Simultaneously, investors with smaller budgets can enter this market and wait for some years to get the proportionate return on investment. Also, the credit lending risk spread increases; provision of a single 5 cr loan to a single entity will lead to concentrated risk. The

defaults are managed better in the former case as the number of borrowers are higher. Subsequently, the bank will have an increase in the number of loan accounts and customer relationships. The banks can also combine credit insurance payments from the customer with the interest rates to further reduce the risk of lending.

The digital contract will allow internal reselling of units at a premium less than what an external reselling would involve; short-selling is available with highest additional costs. Also, the rent/lease agreement(s) can be set up and rent/least incomes proportionate to unit ownership will be paid to the respective owners. However, every transaction will have promoter incentives, brokerages and taxes and when the contract attains maturity, the property turns into a single unit and owners will get a voting poll for sale at every bid. Further, anyone at any point can buy the promoter rights (partly/wholly) at a premium inclusive of brokerages and taxes.

Multiple contracts (same/different scrip(s)) can be securitised into Mutual Fund units and other tier investment portfolios. Further the contract purchase credit can be analysed, rated and then converted into debt instruments and later on bundled into CDOs (collateralized debt obligations) apart from credit swaps.

Also a separate derivative market with only options (no futures) can be created as the number of original units are limited and cannot be diluted unlike equity; similar additional costs for the transactions.

Thus, the same asset can be monetised and taxed in multiple ways by the promoter, consumer and government. This will not only mean financial inclusion and boosting the real-estate industry but also boost the overall GDP by enabling more sources of income (passive/active).

~ Hridam Roy Chowdhury